

# Pakistan Equity Market Guide 2015

June 2015

## Pakistan – A Snapshot

Trade Information	
<b>Major Market</b>	KSE ( <a href="http://www.kse.com.pk">http://www.kse.com.pk</a> ) Bloomberg: PA, Reuters: KA
<b>Major Indices</b>	KSE100 Index, representing 86% of total market capitalization
<b>Market Capitalization</b>	\$76 bn
<b>Average Daily Turnover</b>	\$166 mn
<b>Market Hours: (Mon-Thurs)</b>	Local Time: 09:30 – 15:30 / GMT: 04:30 –10:30
<b>Market Hours: (Fri)</b>	Local Time: 09:15 – 12:00 / GMT:04:15 – 7:00
	Local Time: 14:30 – 16:30 / GMT:09:30 –11:30
<b>Circuit Breakers</b>	Stock wise movement limit of 5% or PKR 1 (whichever is larger), both ways
<b>Round Lot Size</b>	<ul style="list-style-type: none"> <li>• Minimum tradable lot size varies with price</li> <li>• Separate odd lot market</li> </ul>
<b>Buy in Rules</b>	<ul style="list-style-type: none"> <li>• In case of non-delivery the exchange calls for buy-in and costs are borne by clients</li> <li>• For liquid stocks, broker can arrange to borrow shares for the client to avoid failed trades</li> <li>• Failed trades are sent by the exchange to Square Up market. Price difference and other charges are borne by the client</li> </ul>
<b>Restrictions</b>	<ul style="list-style-type: none"> <li>• Short Sell: Conditional short selling in regular market is allowed using a special window (F8) and client has to inform the broker before trades. Conditions include pre-existing interest or borrow stock through SLB product and prior written agreement Blank selling is allowed only in Deliverable Futures Market</li> <li>• Crossing: Crossing will be done through negotiated deal market (NDM) which is available on KATS and can be done during trading times and goes on until 5.00pm (PST)</li> </ul>
<b>Foreign Currency Access</b>	Foreign investors are allowed to trade by routing their funds through a Special Convertible Rupee Account (SCRA) which allows full convertibility. Dividends are also repatriated through the same.

Trade Information	
<b>Trading and Execution</b>	<ul style="list-style-type: none"> <li>• Fix/Fidessa and Bloomberg EMSX</li> <li>• Bloomberg</li> <li>• Automated trading systems called Karachi Automated Trading System (KATS) where orders are placed and executed by domestic brokers</li> </ul>
<b>Tax</b>	<ul style="list-style-type: none"> <li>• Federal Excise Duty (FED) at 15% on brokerage charges</li> <li>• Capital Value Tax: 1bps of value traded on purchase trades only</li> <li>• Capital Gains Tax (CGT) will be charged effective July 1st 2010</li> <li>• Rate of Tax on Capital Gains: <ul style="list-style-type: none"> <li>12.5% of gains on holdings up to 12 months</li> <li>10% of gains on holding of 12-24 months</li> <li>All holding above 24 months will be exempted of any gains tax</li> </ul> </li> <li>• Corporate including FII's will be required to file quarterly tax statements along with advance tax within seven days of quarter ends</li> <li>• Capital losses to be adjusted on the same tax year and cannot be carried forward</li> <li>• FIFO method to be used for price calculation on multiple holding periods in the same name</li> </ul>
<b>Settlement</b>	<ul style="list-style-type: none"> <li>• T+2 (T+1 for a brief period where corporate action is imminent)</li> </ul>
<b>Delivery</b>	<ul style="list-style-type: none"> <li>• Electronic</li> <li>• Physical also possible</li> </ul>
<b>Tradable Instruments</b>	<ul style="list-style-type: none"> <li>• Cash Equities</li> <li>• Equity Futures / Index Futures</li> <li>• Corporate Bonds</li> <li>• Government Bonds</li> </ul>
<b>Central Depository</b>	<ul style="list-style-type: none"> <li>• Yes</li> </ul>

## Trading & Settlement: Foreign Equity Investors

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## International Equity Sales Contact Sheet

# Trading & Settlement: Foreign Equity Investors

## International Equity Sales – Contact Sheet



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## Open a Custody & Brokerage Account

# Opening a Custody & Brokerage Account

## Custodian Set-up Checklist

### Setting up a Custodian Relationship: SCRA and CDC Accounts

<b>Doc. 1</b>	Custody Agreement with Custodian Bank
<b>Doc. 2</b>	Power of Attorney
<b>Doc. 3</b>	Cash Account Opening Documentation

### Major Custodian Banks in Pakistan

<b>Deutsche Bank</b>	Hammad Izz-e- Hamid	+92 213 520 7340	hammad.izz-hamid@db.com
<b>Citibank</b>	Faraz Hussain	+92 213 259 8258	faraz.hussain@citi.com
<b>Standard Chartered</b>	Habib ur Rehman Khan	+92 213 245 1248	habib.-ur-rehman.khan@sc.com

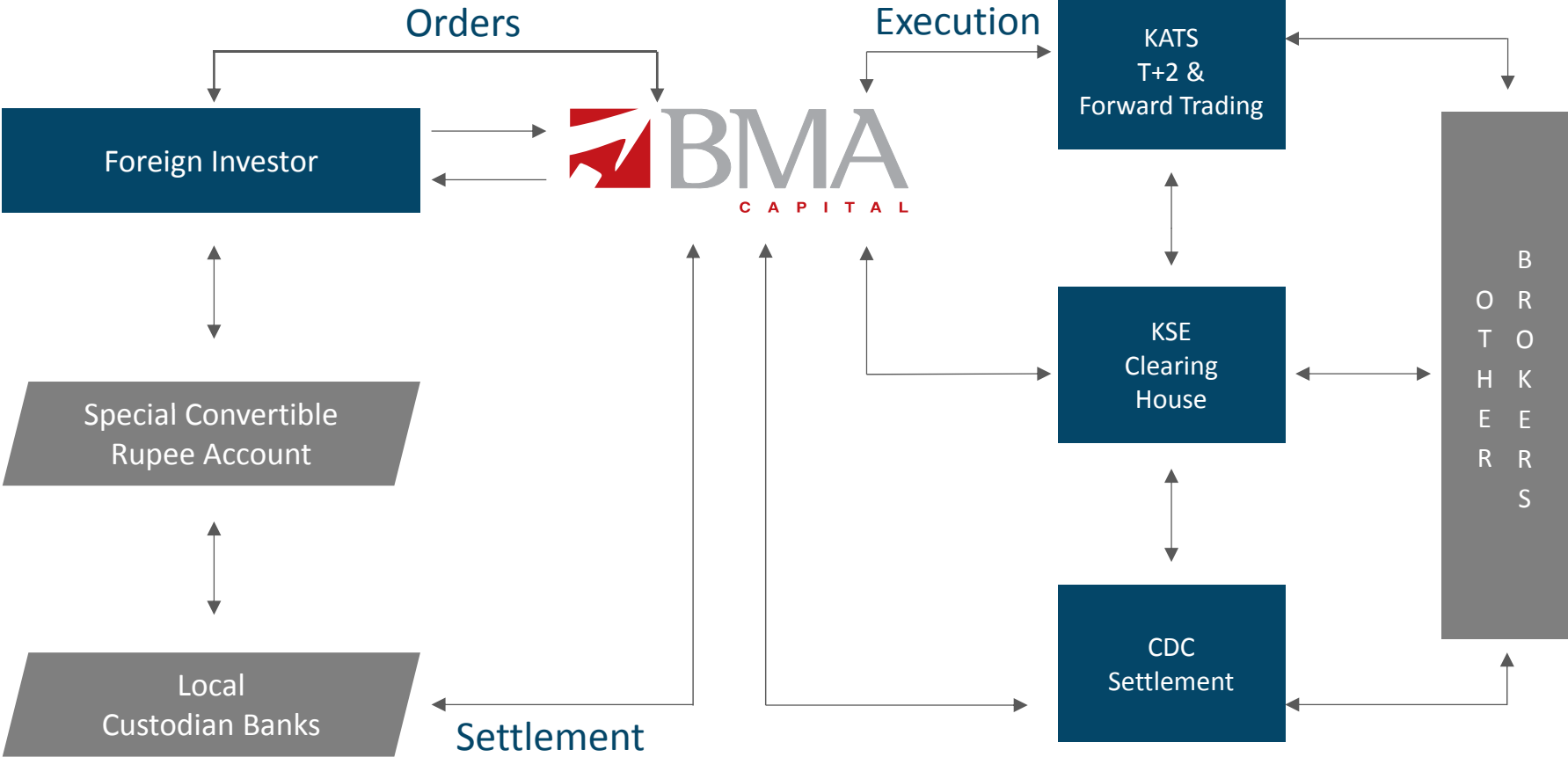
### Setting-up a Broker Account

<b>Doc. 1</b>	Broker/Client Agreement
<b>Doc. 2</b>	Certified true copy of Board resolution authorizing execution of this Investor Account Opening Form
<b>Doc. 3</b>	Attested copies of constituent documents of the applicant (Memorandum & Articles of Association, Act/Charter/Statute/Bylaws/Rules & Regulations etc.)
<b>Doc. 4</b>	Attested copies of Certificate of Incorporation and/or Certificate of Commencement of Business (if applicable)
<b>Doc. 5</b>	Specimen Signatures of Authorized Signatories
<b>Doc. 6</b>	Duly notarised Power of Attorney (if applicable)
<b>Doc. 7</b>	Attested copy of the CNIC (Resident)/Passport No. (Non Resident/ Foreign National) of Authorized Signatories
<b>Doc. 8</b>	Attested copy of NTN Certificate (if applicable)
<b>Doc. 9</b>	Contact details for client execution and settlement

## Execution & Settlement Cycle

# Execution & Settlement Cycle

## Trading Mechanics at KSE



Trading Cycle

- Step 1 Order & instructions sent by clients via Bloomberg/ Fidessa / email / fax / telephone
- Step 2 Acknowledgement of receipt of order & instructions via Bloomberg / Fidessa / email / fax / telephone
- Step 3 Order executed on KATS
- Step 4 Periodic execution updates communicated to client via Bloomberg / Fidessa / email / fax / telephone
- Step 5 End of day final execution reported to client via Bloomberg / Fidessa / email / fax / telephone
- Step 6 Detailed execution confirmation sent to client via email and fax

#### Settlement Cycle - Ready

Step 1

Client sends instructions to settle the trade to the custodian bank

Step 2

Custodian bank sends a pre-match report confirming the trade details to the broker (stock name, quantity, total value, value date, etc.)

Step 3

Settlement is T+2 (T+1 if the name is trading SPOT i.e. book closure). Trade is settled T+2 on delivery versus payment (DVP) basis

### Pre-Trade

#### Step 1

A client has to open a separate Sub-Account under SCRA through which they will route receipts/payments, initial margin, mark-to-market settlement, transaction charges, commission, fees etc. to the broker

#### Step 2

Client has to agree with the broker on margin requirement

#### Step 3

Client will give margin amount to the broker through custodian bank

### Trade Process

#### Step 1

Mark to market losses if any to be paid by the client through custodian bank upon intimation by the broker.

#### Step 2

At the end of future contract period the broker will send net position to the client to be settled on the settlement date.



## Execution & Settlement Cycle

### Buy-in Cycle (for Failed Trades)

#### Buy-in Cycle (for Failed Trades)

- Step 1** Order is received from client, acknowledged, executed and confirmed
- Step 2** Client instructs custodian bank to settle trade who forwards pre-match report to the broker by T+1
- Step 3** Settlement is T+2 (T+1 if the name is trading SPOT i.e. book closure). National Clearing has a settlement deadline of 3:30 PM PST while the custodian has a 12:30 PM PST deadline for the same
- Step 4** After 3:30 PM PST, National Clearing provides the broker one last opportunity to settle the trade within a window of 45 minutes (grace period 3:30 - 4:15 PM PST). Any payment due to the broker however is not transferred until the next day if settlement occurs in the grace period
- Step 5** After 4:15 PM PST, the trade is considered a failed trade and automatically goes to a separate square-up market the following day
- Step 6** The trade is settled in the square-up market at typically a disadvantage of ~5% which is entertained by the client

## **State Bank of Pakistan: Regulations for Foreign Investors**

### Regulatory Framework

- Foreign investors are freely allowed to operate in the capital market without any retention period
- There are no restrictions on the extent of foreign ownership stake. However, permission of the State Bank of Pakistan (central bank) is required in case of transfer of 5% or more shares of any bank or financial institution. There is no limit for holding the shares for trading purposes
- Funds invested in the capital market are freely transferable along with dividend income
- Foreign investors are treated at par with local investors in tax treatment
- An investor has to inform the regulator if it accumulates more than a 10% of stake in a company

## Trading of Shares by Non-Residents

Salient features of State Bank of Pakistan (SBP) F.E. Manual Eighth Edition 2002 (Corrected up to 31st January, 2002)

- Non-residents are allowed to trade freely in the shares quoted on the Stock Exchanges in Pakistan. For this purpose the non-residents will be required to open "Special Convertible Rupee Account" with any Authorized Dealer in Pakistan. Such accounts can be fed by remittances from abroad or by transfer from a foreign currency account maintained by the non-resident investor in Pakistan. The balance available therein can be used for purchase of any share quoted on the Stock Exchange
- Payment for such purchases may be debited to the account on production of stock broker's memo showing sale of shares to the account holder and disinvestments proceeds may be credited provided evidence of the sale price in the shape of stock broker's memo is produced

### Trading of Shares by Non-Residents (cont'd)

- The fund available in such special accounts can be transferred outside Pakistan or credited to a foreign currency account maintained in Pakistan at any time without prior approval of the State Bank. These accounts can also be credited with dividend income. Transfers from one such account to another may also be made in case of transfer of shares between the two account-holders
- The commission earned by the international brokers from their overseas clients and credited net of taxes to the broker's SCRA account may be remitted by the Authorised Dealers provided the funds so credited have emanated from inward remittances or paid out of SCRA of the investor
- Authorised Dealers will be required to submit to the Director, Statistics Department, State Bank of Pakistan, Central Directorate, Karachi a statement in the prescribed proforma on weekly basis showing the position in respect of SCRA accounts as on each Saturday. The statement should reach the State Bank within two working days from the close of the week to which it pertains

### Non-Residents Allowed to Trade in Shares in Futures Market

- As per the FE (SBP) circular number 10 dated July 21, 2006 it has been decided to allow non-residents to trade in shares in Futures Market through Special Convertible Rupee Account. Accordingly, following instructions are being added in the above Paragraph after the words “Account Holders” appearing in the last line as under:
- “Non-Residents are allowed to trade in shares in Futures Market through SCRA, subject to the following procedure:
  - A separate Sub-Account under SCRA shall be opened by foreign investors through which an investor will route receipts/payments, initial margin, mark-to-market settlement, transaction charges, commission, fees etc
  - Margins relating to Futures Contracts may also be routed through this account. However, while allowing refund of the margin through SCRA to a Non-Resident, the Authorized Dealer should ensure that the Broker has quoted the date and instrument number under which the margin was received by them
  - Authorized Dealers shall report information on market value of foreign investments through future trading in their weekly returns to the Statistics Department on the revised proforma as enclosed. The Daily Statement showing inflow/outflow and opening/closing balances in the SCRA shall however, continue to be reported to the Statistics Department on the prescribed Performa as advised vide EPD Circular Letter No.05/EPP.11(579)-2005 dated March 11, 2005”

Karachi Stock Exchange Timings

	Pre-open	Open	Close
<b>Monday – Thursday</b>	9:15 PST (4:15 GMT)	9:30 PST (4:30 GMT)	15:30 PST (10:30 GMT)
<b>* Friday Morning session</b>	9:00 PST (4:00 GMT)	9:15 PST (4:15 GMT)	12:00 PST (07:00 GMT)
<b>* Friday Afternoon session</b>	14:15 PST (9:15 GMT)	14:30 PST (9:30 GMT)	16:30 PST (11:30 GMT)

*\* Please note on Fridays the KSE has two sessions with a two and a half hour break in between*

### Cost of Market Transactions: Trading Costs

<b>Brokerage Commission</b>	To be discussed with Broker
<b>Federal Excise Duty (FED)</b>	1500 Bps (15.0%) is applicable on Broker Commission on both buys and sells
<b>Capital Value Tax (CVT)</b>	1 Bp (0.01%) is applicable on buys



## Contact Details

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